

## Message Text

CONFIDENTIAL

PAGE 01 CARACA 10378 042027Z

60

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

----- 128419

O 041900Z OCT 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 423

C O N F I D E N T I A L CARACAS 10378

EXDIS

E.O. 11652: GDS

TAGS: ENRG, PFOR, VE

SUBJECT: OIL REVERSION- STATUS OF NEGOTIATIONS WITH GULF AND  
SOME DETAILS ON OTHER COMPANIES.

REF: CARACAS 10317

OPERATIONS CENTER PLEASE ADVISE AMBASSADOR SHLAUDEMAN AT  
WATERGATE HOTEL

1. SUMMARY. GULF MET WITH MINES MINISTER HERNANDEZ EVENING OF OCTOBER
2. HERNANDEZ TOLD GULF MANAGER BERNARDO DIAZ THAT AVERAGE TECHNICAL  
SERVICE FEE FOR ALL OIL CONCESSIONAIRES WILL BE 19.5 CENTS PER BARREL.

AT PRODUCTION RATE OF 2.2 MILLION B/D, GOV WILL BE OBLIGED TO PAY  
BS 656 MILLION ANNUALLY FOR TECHNICAL ASSISTANCE, WHICH IS ABSOLUTE  
MAXIMUM HERNANDEZ SAID GOV IS ABLE TO PAY. DIAZ DESCRIBED VARIOUS  
PROCEDURES THAT GOV IS OFFERING CONCESSIONAIRES THAT WILL ENABLE  
COMPENSATION BONDS TO BE RETIRED IN LESS THAN FIVE YEARS. SOME  
REPRESENT  
NEW CONCESSIONS BY GOV WE HAVE NOT PREVIOUSLY HEARD.  
DIAZ DESCRIBED THE COMPENSATION BONDS AND GUARANTY FUND AS A  
TEMPORARY " HOLDING ACTION" BY THE GOV TO AVOID HAVING TO PAY  
THE TOTAL COMPENSATION AT THE TIME OF NATIONALIZATION. HE CALCULATES  
THAT GULF WOULD BE ABLE TO OBTAIN ITS TOTAL COMPENSATION WITHIN  
TWO OR THREE YEARS USING THE AGREED DEVICES. HERNANDEZ TOLD THE GULF  
MANAGER THAT MOBIL STANDS TO GET THE HIGHEST TECHNICAL  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CARACA 10378 042027Z

ASSISTANCE FEE UNDER THE PROPOSED FORMULA. THE LATEST INFORMATION IS

THAT TECHNICIANS SALARIES AND COST WILL BE PAID OVER AND ABOVE THE TECHNICAL ASSISTANCE FEE. DIAZ INDICATED THAT THE MIDDLE EAST SETTLEMENTS BEING NEGOTIATED WITH KUWAIT AND SAUDI ARABIA ARE THE KEY TO THE FINAL PACKAGE HERE. IT IS FOR THIS REASON THAT GULF AND OTHER COMPANIES ARE OPPOSING IN PRINCIPLE THE PROPOSED DEDUCTIONS FOR OIL DRAINAGE. THEY FEAR THAT IT WOULD SET A PRECEDENT THAT MIDDLE EASTERN COUNTRIES MIGHT APPLY, AND EVEN HAVE WIDER IMPLICATIONS

(NIGERIA FOR EXAMPLE). THIS TELEGRAM IS BASED ON PROPRIETARY INFORMATION GIVEN TO THE EMBASSY IN CONFIDENCE AND IS NOT FOR DISSEMINATION TO THIRD PARTIES. END COMMENT.

2. COMPENSATION NEGOTIATIONS- DIAZ SAID THAT THE FOLLOWING WAYS OF EFFECTING RETIREMENT OF THE COMPENSATION BONDS ARE THE SUBJECT OF NEGOTIATIONS. HE INDICATED THAT THE GOV APPEARS TO BE AGREEABLE TO ALL.

A). CONCESSIONAIRES WILL BE ALLOWED TO REPLACE THEIR CURRENT CASH DEPOSITS IN THE GUARANTY FUND WITH BONDS. IN THE CASE OF GULF, THIS WOULD MEAN THE COMPANY COULD IMMEDIATELY GET \$6 MILLION IN CASH. DIAZ SAID THAT DOLPH TOLD HIM RECENTLY THAT CREOLE HAS \$60 MILLION IN THE FUND AND THAT IT WOULD RETRIEVE. GULF WOULD HAVE TO REPLACE THE CASH WITH APPROXIMATELY \$50 MILLION IN BONDS. THIS REPRESENTS 10 PERCENT OF THE COMPAN'S GROSS INVESTMENT AND ABOUT ONE-HALF OF ITS NET BOOK VALUE.

B) COMPENSATION BONDS WOULD BE REDEEMED IN STAGES, RATHER THAN AFTER THREE YEARS, AS SPECIFIC INVENTORIES ARE COMPLETED. FOR EXAMPLE, THE MINISTRY COULD DECIDE TO SURVEY THE VENEGREF REFINERY AT PUERTO LA CRUZ AT AN EARLY DATE. WHEN IT DETERMINES THE REFINERY TO BE IN ACCEPTABLE CONDITION, THE VALUE OF THIS ASSET WOULD BE RELEASED FROM THE GUARANTY FUND AND THE COMPANY WOULD RECEIVE A CASH PAYMENT. THUS, LARGE CHUNKS OF THE COMPENSATION COULD BE POTENTIALLY RETIRED ON AN ACCELERATED SCHEDULE.

C) MINES MINISTER HERNANDEZ TOLD DIAZ, BEFORE GOING TO VIENNA, THAT INCREMENT OF THE EXPECTED OPEC OIL PRICE INCREASE WOULD BE PERMITTED TO BE PAID WITH COMPENSATION BONDS. EXAMPLE: IF VENEZUELAN

CRUDE INCREASES FROM \$13.50 TO \$14.85 (10 PERCENT), USING ARTURO HERNANDEZ GRISANTI'S PUBLIC ESTIMATE OF SEVERAL DAYS AGO, THE \$1.35 INCFEASE PER BARREL COULD BE PAID WITH COMPENSATION BONDS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CARACA 10378 042027Z

D) IN ADDITION TO THE 2.5 PERCENT OF EACH OIL SALE THAT COULD BE PAID WITH COMPENSATION BONDS, DIAZ SAID THAT AN ADDITIONAL 2.5 PERCENT WOULD BE PERMITTED TO BE UTILIZED FOR ANY OIL LIFTINGS ABOVE THE BASE ALLOCATION. EXAMPLE: IF GULF AGREED TO LIFT 10,000 B/D MORE THAN BASE ALLOCATION OF 400,000, FIVER PERCENT OF THE COST OF THE ADDITIONAL 10,000 COULD BE PAID WITH BONDS.

E) DIAZ VOLUNTEERED THE INFORMATION THAT IS HAS APPARENTLY BEEN

DECIDED THAT THE COMPENSATION BONDS WILL BE TAX FREE. HE CALCULATES THIS WILL GIVE GULF AN EQUIVALENT RATE OF 9 PERCENT.

3. TECHNICAL SERVICE FEE- DIAZ STATED THAT GULF HAS BEEN OFFERED 12 CENTS PER BARREL FOR PRODUCT, PLUS 12 CENTS FOR EACH BARREL REFINED. HE CALCULATES THIS WILL NET THE COMPANY 15 CENTS PER BARREL.

GULF WILL REFINER 100,000 OF THE 400,000 B/D ALLOCATION IT HAS REQUESTED. MINISTER HERNANDEZ TOLD HIM THAT THE INDUSTRY AVERAGE FEE WILL BE 19.5 CENTS. HERNANDEZ EXPLAINED THAT MOBIL WILL RECEIVE THE HIGHEST FEE, SINCE IT REFINES ABOUT 75,000 B/D FOR ITS OWN ACCOUNT BUT OPERATES A REFINERY THAT TURNS OUT OVER 100,000 B/D. THUS, MOBIL WILL RECEIVE A FEE FOR OIL IT REFINES FOR OTHER PRODUCER UNITS. DIAZ SAID CREOLE ESTIMATES THAT ITS NET FEE WILL BE 22.5 CENTS PER BARREL.

4. HERNANDEZ TOLD DIAZ THAT TECHNICAL ASSISTANCE WILL COST THE GOV BS 656 MILLION ANNUALLY, AND THAT THIS IS THE OUTSIDE LIMIT IT CAN AFFORD TO PAY. DIAZ SAID HE CONFIRMED THIS SUM AFTER THE MEETING BY MULTIPLYING THE 19.5 CENTS BY AN AVERAGE 2.2 MILLION B/D.

5. TECHNICIANS SALARIES AND OTHER COST WILL BE PAID BY THE GOV OVER AND ABOVE THE TECHNICAL SERVICE FEE, IS THE LATEST UNDERSTANDING OF DIAZ. HE SAID THE FEE IS TO BE FREE AND CLEAR. THE NET FEE WILL BE DERIVED ACCORDING TO A CALCULATION WHICH DIAZ ROUGHLY DESCRIBED AS FOLLOWS:

- 28 CENTS GROSS FEE
- 4. CENTS DEDUCTED FOR OPERATING EXPENSES (SALARIES, ETC.)
- 24 CENTS SUBJECT TO GOV TAX (DIAZ SAID 50 PERCENT)
- 12 CENTS NET TO GULF

6. DEDUCTIONS FOR OIL DRAINAGE- DIAZ STATED THAT HIS COMPANY HAS A 1.2 MILLION BBL DEFICIT WITH CVP. DEDUCTIONS BEING CONSIDERED WILL BE CONFIDENTIAL

CONFIDENTIAL

PAGE 04 CARACA 10378 042027Z

BE EITHER FOR CURRENT OR HISTORICAL PROFITS PER BARREL. THE MINES MINISTRY HAS ALL THIS INFORMATION ON HAND. CURRENT PROFIT, ACCORDING TO DIAZ, IS 20 CENTS PER BARREL, WHILE HISTORICAL PROFITS MIGHT BE AS MUCH AS 30 CENTS. THUS, THE MAXIMUM DEDUCTION FOR GULF WOULD BE IN THE NEIGHBORHOOD OF \$300,000. DIAZ SAID PHILLIPS GROUP MIGHT BE LIABLE FOR \$4 OR 5 MILLION.

7. THE AMOUNT OF DEDUCTIONS IS NOT AS IMPORTANT AS THE PRINCIPLE, DIAZ SAID. GULF IS NEGOTIATING WITH KUWAIT AND OTHER COMPANIES HERE ARE NEGOTIATING WITH SAUDI ARABIA WHERE "MILLIONS OF BARRELS OF OIL ARE INVOLVED." DIAZ SAID THE COMPANIES DO NOT WANT A PRECEDENT ESTABLISHED HERE. GULF IS NEGOTIATING TERMS WITH KUWAIT WHEREBY THE TECHNICAL ASSISTANCE WOULD BE BASED ON COST PLUS AN UNSPECIFIED FEE ON 650,000 B/D. KUWAIT, DIAZ SAID, WOULD ALSO GIVE

A "CLEAN" 15 CENT PER BARREL DISCOUNT ON THE PRODUCTION. ASKED  
WHETHER THE CREOLE FEE  
OF 22.5 CENTS PER BARREL IS AS GOOD AS SAUDI ARABIA IS OFFERING  
ARAMCO, DIAZ REPLIED THAT "ITS IS CLOSE" BUT THE MIDDLE EAST  
VOLUMES ARE SO MUCH LARGER.

7.

COMMENT- BERNARDO DIAZ IS A VENEZUELAN  
WHO HAS WORKED FOR GULF FOR 32 YEARS. HE WAS TRANSFERRED TO  
VENEZUELA THIS YEAR FROM ECUADOR, WHERE HE MANAGED THE GULF OPERATION.

DIAZ HAS WHAT APPEARS TO BE EXCELLENT RAPPORT WITH THE MINES MINISTER.

HE SAW THE MINISTER THE SAME EVENING OF THE DAY HERNANDEZ ARRIVED  
(AT 0700) FROM MADRID. (DIAZ SAID HE HAS HEARD THAT THE  
PURPOSE OF HERNANDEZ LONG STOPOVER IN MADRID, ON HIS RETURN FROM  
VIENNA, WAS TO MEET WITH PEOPLE FROM ENGLAND (HE PRESUMES IT WAS  
SHELL). DIAZ WILL LEAVE THE GULF COMPANY TO BECOME PRESIDENT OF  
MENEVEN  
AFTER NATIONALIZATION. THIS WOULD APPEAR TO PLACE HIM IN AN  
AWKWARD POSITION OF BEING ON BOTH SIDES OF THE BARGAINING  
TALBE, BUT HE IS STILL THE TOUGH COMPANY NEGOTIATOR. HE BELIEVES  
THAT THE GOV WILL MAKE THE FORMAL COMPENSATION OFFERS ON SCHEDULE.  
WHETHER GULF ACCEPTS, HE SAID, DEPENDS UPON THE FINAL OFFER. HE IS  
SCHEDULED TO MEET WITH THE TECHNICAL COMMITTEE (AREVALO REYES) ON  
OCTOBER 7, AND EXPECTS TO HAVE ONE MORE MEETING WITH THE MINISTER  
CONFIDENTIAL

CONFIDENTIAL

PAGE 05 CARACA 10378 042027Z

ON OCTOBER 9 WHERE HE WILL CONTINUE TO PUSH FOR A BETTER DEAL.  
HE HAD HIGH PRAISE FOR THE TECHNICAL SKILLS OF THE OIL PRICE COMMITTEE

(ALBERTO FLORES, FELIX ROSSI AND ALIRIO PARRA) AND FOR THE  
MINISTER. END COMMENT.  
ASENCIO

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** NATIONALIZATION, POLICIES, PETROLEUM INDUSTRY, BUSINESS FIRMS, DEBT REPAYMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 OCT 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ElyME  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975CARACA10378  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750345-0786  
**From:** CARACAS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19751082/aaaacvez.tel  
**Line Count:** 207  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION SS  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** EXDIS  
**Reference:** 75 CARACAS 10317  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ElyME  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 03 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03 APR 2003 by SmithRJ>; APPROVED <29 OCT 2003 by ElyME>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** OIL REVERSION- STATUS OF NEGOTIATIONS WITH GULF AND SOME DETAILS ON OTHER COMPANIES.  
**TAGS:** ENRG, PFOR, VE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006